

Speech

LC: SFST's speech in moving the Second Reading of the Deposit Protection Scheme (Amendment) Bill 2010

Wednesday, April 21, 2010

Following is the English translation of the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, in moving the Second Reading of the Deposit Protection Scheme (Amendment) Bill 2010 at Legislative Council meeting today (April 21):

President,

I move the Second Reading of the Deposit Protection Scheme (Amendment) Bill 2010 (the Bill).

The Bill seeks to provide for the implementation of enhancement proposals concluded from a review of the Deposit Protection Scheme (DPS) conducted by the Hong Kong Deposit Protection Board (the Board) in 2009, with a view to enhancing the DPS as a part of the financial infrastructure of Hong Kong, thereby allowing depositors to enjoy better deposit protection.

In the light of relevant developments in international and local financial markets, and experience gained from operating the DPS, the Board conducted a review of the DPS and two rounds of public consultation on the findings of the review in 2009. The review concluded that the existing design features of the DPS in Hong Kong are already in substantial compliance with international best practices. Nevertheless, the review identified some enhancements to the DPS for addressing the latest market developments, in particular, for meeting heightened public expectation for better deposit protection. The enhancement proposals received broad support during the public consultations.

The major enhancement proposals identified in the review include raising the DPS protection limit from HK\$100,000 to HK\$500,000, and expanding its coverage to include secured deposits. Raising DPS protection limit to HK\$500,000 will bring the level of deposit protection in Hong Kong closer to

those in other major markets in absolute terms, and on a par with the higher end of international standards in terms of percentage of depositors fully covered. On the other hand, protecting secured deposits will help remove the uncertainties surrounding the protection status of a deposit being taken as a security by banks, or subject to any forms of encumbrance, for supporting the other banking and financial services provided by banks, most commonly under an integrated account. This enhancement proposal will improve the clarity of the coverage of the DPS, thereby fostering stronger confidence of the public in the DPS.

At the same time as improving depositor protection, cost mitigating measures are recommended to avoid the additional cost being transferred to depositors. Raising the DPS protection limit and protecting secured deposits will increase the amount of deposits in the banking industry protected by the DPS. The DPS Fund is made up of contributions payable by members of the DPS. And the annual contribution is set as a percentage of the amount of protected deposits held with the DPS members. Thus, an increase in the amount of protected deposits will in turn raise the amount of annual contributions payable by DPS members. In order to eliminate any incentive for banks to pass the additional cost to depositors, we recommend the introduction of cost mitigating measures, which include cutting the annual contribution rates of DPS members by 65% so as to keep the annual contribution payable by members at its current level, and allowing DPS members to report their amounts of relevant deposits for contribution assessment purposes on a net deposit basis.

In addition, as a result of the changes to the level and scope of protection under the DPS, corresponding adjustments have to be made to the priority claims of depositors under the Companies Ordinance so as to ensure that the Board can continue to recover fully the compensation it pays to depositors through subrogating into their priority claims.

Lastly, we have taken the opportunity to make some amendments to the Deposit Protection Scheme Ordinance, including the amendments for improving the efficiency of the Board in making compensation to depositors in a payout, and providing for the making of additional rules by the Board on the representation, disclosure and acknowledgement requirements in relation to deposits and other financial products. With these enhancements, depositors

will benefit from receiving faster compensation payment and improved clarity of the protection status of their deposits.

President, I look forward to Members' support and early passage of the Bill so that depositors in Hong Kong can benefit from an enhanced DPS upon the expiry of the full deposit guarantee at the end of this year. In addition, to ensure a smooth transition to the enhanced DPS, the Board will maintain close contact with the banking industry to ensure their readiness in implementing the relevant enhancement measures. The Board will also launch a publicity campaign to highlight the features of the enhanced DPS upon the passage of the Bill so as to help the public better understand such new features.

Thank you, President.